

# **A Preliminary Assessment of the Enabling Environment for Cashew in Mozambique**

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**IMPROVING PRODUCTION OF CASHEW IN MOZAMBIQUE: A PRELIMINARY  
STRATEGY**

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## Executive Summary

In Mozambique, cashew production and marketing has long held the promise of significant growth and income to all levels of society: from the smallest farmer to the largest industrialist or exporter. Yet it has not lived up to its potential, due to circumstances of civil unrest and the economic regimes that have dominated the country over the past decades. Now that civil unrest no longer plays a leading role in determining the outcome of the country's future, attention is refocusing on the policy environment needed to both move out of the former socialist structures and to provide incentives to the emerging entrepreneurs and farmers on whom economic growth and competitiveness of the country depends. The cashew industry is a key component of the assets and growth engines available to the country in its new form. While some progress has been made on improving the policy environment for cashew, certain regulatory disincentives to growth and recuperation of world-status cashew positioning still exist. These policies have been identified, described, and analyzed in this report.

Policy issues often seem a distant, theoretical, unknown miasma to the producers, traders, and exporters engaged in the daily grind of planting, harvesting, selling, transporting, and marketing of agricultural products. More and more, however, stakeholder groups throughout Africa are coming to understand the impacts that regulations and legal restrictions have over the success of their activities. They are beginning to develop new ways (beyond the old ways of avoidance of regulatory inconvenience, bribery, or violent resistance against restrictive systems) of attempting to *change* inhibiting policy environments, often through dialogue and compromise with government officials and other key stakeholder groups.

In Mozambique, however, these catalytic groups are unsure of their role and how to go about the policy change process, which demands a certain amount of political know-how, information about the actual policies and their negative impacts that need to be changed, and a strategy for changing them. Some of the discussion in this paper, therefore, reflects on the policy change process and the techniques that can be used or supported to help the cashew industry find balanced policy regimes, without completely sacrificing either liberal, competitive market positioning, or government revenues.

This report also provides some information on the policy activities of other countries also engaged in the cashew trade, including Brazil, Tanzania, Guinea Bissau, Vietnam, and India. Researching the policy environments in which competitors are operating is a useful tool in developing internal strategies to meet or exceed the capacities of these competitors, and can also provide powerful lessons-learned about what does not work well. In addition, it is often easier for those attempting to influence the internal policy situation to analyze and point to the success or failure stories of other countries' policies. This allows the reform advocate to avoid direct or early confrontation that could spark immediate defensive reactions on the part of the government officials (and others) in Mozambique, who could feel threatened or challenged if their policies are directly attacked in the early stages of the policy reform process before their buy-in to the changes has been won, or at least before their power to resist has been diminished.

Based on the research undertaken in this report and the policy barriers or inhibitors that have been identified, the final section of the report provides some recommendations for moving forward on a course that will begin the process of supporting policy changes where most needed. These recommendations are to:

- 1) **Conduct analyses of the economic impacts of the policies on the cashew sector in Mozambique.** A number of taxation and legal requirements have cost implications for the sector. Once removed or reduced, a certain incentivization begins that can be modeled to demonstrate anticipated growth and results. This information can then be used to educate and build awareness among policy decision-makers and stakeholder groups, from producer to exporter. Analyses of the policies most evidently needing change (and this is not all of them) should be undertaken, and the modeling performed as discussed in the body of this document.
- 2) **Begin a series of biweekly or monthly seminars and discussion groups.** An activity that can be coordinated and sponsored through the Cashew Working Group, but be led by the consultants or resident team leader (if one is appointed) would be to hold seminars open to the public and particularly targeted to all the groups involved in the cashew sector. These informal gatherings can be one way for information dissemination to occur, but they can also be used to gather information about the stakeholder groups, their concerns, and their beliefs.
- 3) **Conduct a formal stakeholder analysis and a political map.** Political maps and stakeholder analyses provide certain kinds of essential information relative to lines of communication, strength of support or opposition, groups or individuals that need to be considered in the policy reform process, and the extent of understanding of the policy reforms in question. These tools form the basis for a strategy to work within the system (as opposed to overturning it) to develop a policy environment conducive to the cashew industry.
- 4) **Develop a strategy for supporting policy reform efforts, based on the above.** Included in this strategy is identification and support of policy champions, building public awareness of issues, disseminating information about the negative impacts (or positive benefits) of policy and regulatory restrictions (or newly reformed policies) to the stakeholder populations, actively working with different stakeholder groups to garner their support and develop their understanding of the issues, along with their active participation in the process, as well as finding ways to counteract opposition and minimize negative effects. An important part of the strategy development must also be the strategy for implementation, such as ensuring that the technocrats who are responsible for implementing policy changes in and around the country are prepared and have bought into the policy, so that implementation can get underway once the policy decision-makers have done their work.
- 5) **Provide adequate dissemination of policy changes to the public and private sectors.** A frequently overlooked aspect of policy reform is making sure that the implementing technocrats and the beneficiary populations are aware that policies have been changed, and that the appropriate new forms, procedures, and reporting channels have been updated to reflect these changes.

## 1.0 INTRODUCTION

The rehabilitation of the cashew market and production system in Mozambique faces many challenges as it re-engages in the world market where competition has grown and technologies have become ever more sophisticated. In order to compete in this market and attain its former leading market position, Mozambique must make some aggressive changes to the policy environment surrounding the cashew industry, policies that currently inhibit and bar entrance to Mozambique as a world-status market participant. Officials and business people of Mozambique appear to believe that they can attain the ambitious goal of returning to world market leadership as one of two or three major suppliers of cashew nuts on the international market; however, the will and even the understanding of the changes necessary to make this happen have not yet been mobilized. A brief comparison between a few of Brazil's recent policy incentives and the lagging Mozambican policy environment, as noted below in Section 3.0, provides a glimpse of the differences in approach that will keep Mozambique as a second tier player until it makes difficult and perhaps unpopular (in some camps) strategic decisions about the policy environment in which the cashew market will operate.

Two problems face policy makers as they seek to encourage the cashew industry in Mozambique. These same problems can be said to face almost any decision-maker in any country. They are often not treated strategically or with adequate preparation on the part of policy analysts, donors, reform constituencies, and others who support the change process. These problems are:

- C Often, policies that need to be changed are not merely being retained because of some nefarious intent to discourage progress, they are held on to because officials actually believe in the content and purpose of the policy as originally stated, and are often concerned about the social implications of changing these policies. Particularly in countries where socialist regimes have held power for years, officials retain long-held ideologies that support maintaining policies that they believe will protect the unwary consumer from greedy business people. In many cases, policy makers do not really understand the cause-and-effect impacts on the industries and the economics of the policies they support; what they can predict is the negative effects that, say, changing import policies will have on domestic production, or lifting subsidies will have on poor consumers. Without a balanced view of the tradeoffs and future benefits of policy changes (and discussions about strategies to minimize negative impacts of policy reforms), decision-makers focus on the short-term, immediate impacts that they believe could have serious implications for social stability, domestic economic stability, and their own political careers.
- C For every policy in place, someone has developed a strategy to make it work in their favor or to garner benefits from its application in some form or other. Thus, there will be some individuals, corrupt officials, and industry players who will likely be negatively affected by policy changes. These individuals will resist policy change vocally and effectively, particularly as they are often in powerful positions and will fight to protect their interests.

This combination of unconvinced policy decisionmakers and powerful anti-reform



constituencies makes policy reform difficult. The first step in a policy reform program, therefore, is to identify the policies affecting the sector, and analyze both their current influences (both positive and negative) on the sector and its growth -- in this case, the cashew sector -- and then to begin the education process among decisionmakers *and all concerned stakeholders* so that resisting constituencies can be countered with knowledgeable arguments, and informed public opinion, and over-ridden by now-convinced policy champions who hold similar high-level positions and who are supported by large and/or strategic populations of supportive stakeholders.

The first step in this approach, therefore, is the identification of the relevant policies and a brief overview of their suspected impacts on the cashew sector. The policy matrices found in Annexes 1 and 2 are intended as a discussion paper for the Cashew Working Group. They briefly describe the entire cashew sub-sector and its three major stakeholder groups with respect to impediments faced by all the participants in rebuilding the industry to its former position as the major world supplier of cashews. Annex 1 lists the policies identified to date that affect the sector. Annex 2 includes, for discussion, suggested strategies for dealing with identified policy issues and problems and proposes initial steps or recommendation for action by the industry as a whole. This matrix is broken into four sections addressing reported problems and policy issues affecting the individual stakeholder groups, processors, traders and retail buyers (including exporters of raw nuts) and small farm producers or growers. The final section of the matrix deals with public institutions that provide supporting services to the industry as a whole. As indicated above, priorities and problems are often perceived differently by the different groups.

The next step in the process of informing policy decisionmakers of the implications of existing (and proposed) policies is to analyze the impact on the sector through modeling and quantitative analyses. This technique has been used extremely successfully in other countries, and in fact is most successful when a technical group is formed from the country itself (preferably consisting of government and private sector representatives), and the model is run under various scenarios which demonstrate the impacts of various taxation application or elimination schemes, for example. This methodology assists in providing an informed and knowledgeable core of individuals who become messengers of the technical implications of the policies that are on the table for reform.

Following are some discussions relative to the cashew industry policy environment in Mozambique. Among the issues addressed in the following section are some references to a style of managing policy change that has been the topic of much study and analysis in Abt Associates (see Annex 3, Policy Reform Framework). Although this assignment did not call for a full analysis of the policy environment using this methodology, some of the presentation below draws on its tenets.

## **2.0 OVERVIEW OF POLICY ENVIRONMENT AND CHANGES**

The current environment in which rehabilitation efforts are taking place is worth noting at the outset. Since independence, the cashew industry in Mozambique has been in decline. The decline in production of raw nuts and processed exports was a direct result of a prolonged civil war, successive years of natural disasters, and public policies that attempted to manage the industry as a state monopoly. The industry is now starting to recover. Recovery has been made possible by the cessation of the war, several years of good rains, and a major reorientation in the economic policy environment. This latter has included the privatization of state-owned cashew processing facilities, price liberalization, and the opening of the export markets. Production and marketing of raw nuts are now on the increase as well as the exports of raw and processed nuts. There is little doubt that this recovery process will continue.

The challenge facing the major stakeholders (farmers, traders and industrial processors) and including government, interested donors and PVOs is how fast the industry can be rehabilitated in order to recapture its former position in the world market. To meet this challenge, those working for recovery and growth of the cashew industry in Mozambique must place a high priority on the demand for limited financial resources, as this crop provides the single most important source of cash income for small producers throughout the country. History has repeatedly demonstrated that democracy and economic growth without sustained rural participation seldom succeeds. No other single crop can aid that process in Mozambique as well as cashew. The challenge to reestablish the cashew industry is not an easy one, as new suppliers have entered the expanding world market, increasing the supply of nuts and competition for markets. As noted in the production report submitted simultaneously with this one, Mozambique's cashews are also not comparable in size to those of competitors in the export market, and production techniques and renewal/upgrading of the cashew plantations needs significant attention. For Mozambique to be successful, it will take a concerted effort on the part of all parties working together, a requirement that may be more difficult to achieve than all the production, marketing, and transport enhancements combined.

The single most important policy initiative affecting the cashew industry and the entire economy since the end of hostilities has been the combination of fiscal controls and public sector management reform directed at controlling inflation. In addition, the opening of the economy to new private investment and the cessation of price controls are critical elements of this economic restructuring package. If these measures are not continued and deepened, investors -- both old and new -- will lose confidence, new jobs will not be created, and the rehabilitation and renewed growth of the cashew sector will likely come to a halt.

### **2.1 Processors**

For the cashew processing industry, structural adjustment and its call for rapid economic transformation is most difficult. After years of neglect, a civil war, and misdirected public policies, processors are being asked to become world class competitors seemingly overnight. Saddled with

poorly maintained, outdated, and often inappropriate plants and equipment, as well as high labor costs, rigid labor policies, supply quantity and quality problems, and the lack of financial resources needed to rehabilitate and reopen, some of these firms may not succeed. Others, despite all the difficulties, will. A critical element to the *sustainability* of an open private investor-led economy is ensuring the opportunity to fail as well as providing the opportunity to succeed.

Mozambique has 16 highly-mechanized, capital intensive processing factories of which nine are believed to be operational. While their collective capacity is now estimated at close to 60,000 tons/year, they were initially designed to process approximately 147,000 tons per year, a goal not met since independence. In addition, new investments are being made in semi-mechanized and small-scale manual processing facilities. The location of some of the older factories in areas of traditionally low production mitigates against their future viability given the high cost of North-South transport. Most of the existing factories are now in the process of upgrading their facilities and improving their technology in an effort to reestablish themselves in the international market.

The need for a stable economy cannot be overemphasized. The lack of investment needed to increase supply and quality of raw nuts is of major concern. Increasing farmgate prices and decreasing protection against the export of raw nuts places added pressure on the country's processing industry. These changes are needed for the health of the industry, but must be accompanied by full reform in contiguous areas so that entrepreneurs can take advantage of opportunities opened up in one aspect of a sector without facing impediments in others. Thus, if policies that have impeded the export of raw nuts are lifted, inciting an outflux of nuts with little value-added, policies that place import tariffs on new equipment and technologies should also be eliminated, so that there are incentives in place for investment in Mozambique-based processing. In other words, it could be disastrous to address the sector in a piece-meal manner.

In the process of policy dialogue and analyzing impact of policy on the industry, the processing community must be viewed as a major stakeholder. Processors are typically among the better-placed and more powerful individuals in an industry, with contacts and influence in many arenas. In addition, they may be the end-marketers of the product, with their linkages to export and the knowledge of demand factors (i.e. quality, grades/standards, type, presentation) in the world market. However, the processing end of an industry is often the one most beset by legal requirements and taxation, since, as the more formal end of the industry, it is easier to regulate and monitor. In addition, processing firms generate the largest volume of revenues, and because there are fewer of them, taxation and regulation at this end is easiest. Using their positions and influence to garner support for policy reforms can be a useful activity. Nevertheless, it should not be assumed that processors will gladly welcome all policy reforms, even if some of those may be to their benefit. On the contrary, they may feel threatened by changes in an industry that may mean they will need to work harder, become more competitive, and possibly eventually be unable to survive. As part of a policy change dialogue, including processors will provide early opportunity for those entrepreneurs capable of change to both influence the change, as well as to take advantage of opportunities opened up by change.

## **2.2 Wholesale and Retail Traders**

Critical to the reopening and rebuilding of the rural economy, including the cashew subsector, is the ongoing reestablishment of a rural trading community. While licence requirements and export restrictions tend to slow this growth, the single most critical factor affecting all commercial traders and retail cashew buyers (also known as “intermediaries”) is the high cost of transportation due to the country's poor road, rail, and shipping networks. Lack of adequate storage facilities, difficult access to and high cost of credit are additional factors that limit the speed with which the rural trading sector is reestablished. “Middlemen” are often believed to be the antonym of development by well meaning but misguided officials, farmers, and end users, but in an open economy, they are in fact the essential link that makes the system work. Rehabilitation of the cashew sector in Mozambique is largely dependent upon the reestablishment of a vibrant rural trading community serving the entire country.

Wholesalers and traders should not be overlooked in the policy dialogue process. Although they often know instinctively what to do or how to do it in a private sector capacity, they are often unable to articulate the reasons for their actions, and may come across as self-serving and greedy when in discussions with officials and consumers. Including them in seminars on the basic economics of liberal markets, open discussions and forums where market forces are discussed and policy problems identified can be beneficial not only to raise the profile of issues, but also to assist them in learning how to articulate and present in a more acceptable fashion what to them may be basic instinctive marketing sense. In addition, government officials and consumers often have a very inflated idea of the profits garnered by traders; a useful exercise is to have a trader sit down and list for a government official all the costs of doing business, and look at the level of profit that is achieved at the end. It is a discussion often shocking to those outside the business. In a very successful project in Chad, for example, a key activity was to hold biweekly seminars with local traders and businesspeople, producers and government officials, on the economic research and modeling that policy analysts were conducting for the project. During this process, a number of widespread myths were debunked (including the one that says that farmers sell at low prices at harvest-time only to have to rebuy later at greatly inflated prices when traders, in speculation, take advantage of their situation). Although many of these individuals were actually illiterate, they understood the crux of the presentations (which were tailored to this diverse audience in a way that was truly remarkable), and were eventually able to discuss issues and taxation problems, corruption and enforcement problems with ease and assurance. An amazing outcome of this process was the fact that not only did several trade associations develop from these seminars, but in fact, government officials and traders found themselves so in tune with the basic premises of the discussions that they were often found lobbying for the same actions to decision-makers who had not attended the seminars. This is one example of the usefulness of awareness-building of *all* stakeholders around the intricacies of the policy issues on the table.

## 2.3 Cashew Growers

That cashew production in Mozambique is a small farm, family enterprise has been described and documented in many reports. Only in the last few years have these farmers returned to their homes and fields, secured their food supply and as the market has returned, begun to reestablish their cashew nut production as a cash crop. The conclusion of studies of the state of the cashew trees in Mozambique is that because of the age of the trees, lack of new plant material and years of neglect, sustained production increases beyond a certain point will be difficult if not impossible. Nevertheless, a significant "supply response" to the increasing demand and prices of raw nuts is currently underway, demonstrating a willingness of farmers to meet that demand with increased supply. Further supply responses will be dependent on coordinated extension and research efforts directed at improving the existing production from the old trees and putting in place a national replanting program. Leadership, financing, and good management for that effort are currently missing. To pull these essential components together in Mozambique will take the concerted effort of all the stakeholders working together in partnership with government and donors.

Cashew growing, trading and processing are all now in the hands of the private sector. It is this same private sector that has the vested interest in the success of the reestablishment of the cashew industry in Mozambique. For that reason, the leadership and responsibility for this effort, in partnership with government and international donors should come from the private sector stakeholders themselves. However, so far effective organized producer associations capable of representing the dispersed growers throughout the country do not exist.

From a policy dialogue point of view, this missing link is an important one. In numerous countries throughout Africa and elsewhere, producer organizations have proven to be active and effective lobbyists for their own interests, and, because of the dispersed nature of smallholders and farmers/plantation owners, a critical method of providing a voice in the policy dialogue to this end of the market spectrum. Producers are often overlooked in agribusiness policy dialogues because they are not perceived as the victims of business policy impacts. Since policy is usually perceived to address issues such as export taxes, business licensing, credit to traders and processors, etc., the fact that there are significant upstream impacts is disregarded. Contrary to this perception, however, is the fact that not only do these kinds of policies have backwash effects on prices and thus investment-in-plantation decisions, but actual regulatory practices also affect production directly. Policies that affect producers include such items as import tariffs on agricultural inputs (tools, seeds, pesticides, herbicides), investment decisions relative to farm-to-market roads, land ownership laws and land tenure issues, inter-regional or inter-township taxation policies, etc. Producers also have a stake in government programs that are generally not likely to be administered by the private sector, such as extension services and, in some places, market information services. A project that seeks, therefore, to include producers in the stakeholder dialogue is addressing one of the most important aspects of the configuration. Finally, the extension and research aspects of government agricultural services are an important link to improving the quality of the cashew at the producer level. These departments must be in tune with the private sector who has the direct knowledge and feedback from their buyers abroad as to how the Mozambique cashew stacks up against its competitors. It is unlikely that the private

sector will be able (or want) to invest in a breeding or propagation program (although it has happened); in any case, a useful role for government is to provide the necessary research link between commercial preferences and the producer. As an example, an Abt Associates project in Madagascar was able to bring together the local university's research program and the private sector to organize and deliver a program on appropriate techniques for organic farming, and for production of various spices and commodities, with the university's research center learning, in the process, of the necessary research that they could conduct to directly assist the farmers.

It should not be minimized that stakeholder dialogue is as important for information sharing as it is for influencing policy. Throughout a process of an industry discussing its problems and challenges, significant information is shared that in prior times may never have been known by one or other of the stakeholder groups. For example, issues of quality or consumer preferences around cashews may be well-known to processors and exporters, but little known to producers who may have never been told that nuts of a certain size receive a premium or that cashews from one soil profile are known to be bitter while those from another are not. Alternatively, this also allows the producer to provide information to buyers and processors -- in general, an information dump among players from the entire range of the industry occurs that is a side benefit of involving these players in the policy dialogue.

## **2.4 Institutions**

The Government of Mozambique has recently established a new Cashew Institute replacing the old Secretariat of Cashew. While it is premature to judge this new organization, so far it does not appear to have made the extra effort needed to incorporate into its structure the three major stakeholders in the industry. Nor does the new organization place the responsibility for development of the subsector in the hands of this group of private farmers, private traders and private processors as it might have. It is unclear if the roles of the Ministries of Agriculture and Commerce will be improved by the creation of the new Institute. What is clear is the continuing need for effective leadership that brings all the stakeholders together in a concerted effort to rebuild the industry.

### **3.0 CASHEW SECTOR POLICIES IN MOZAMBIQUE**

Research on policies in Mozambique has spanned a broad horizon of legal and regulatory systems in place. As mentioned previously, Annexes 1 and 2 provide lists of the pertinent regulations as well as some analytical interpretations of their implications for various stakeholder groups, and potential approaches to working to improve the overall policy environment. Below, we have highlighted a select number of these policies and included some comment on their overall impact.

#### **3.1 Fiscal Policy**

The only fiscal policy that is cashew specific is the tax on the export of raw nuts.

##### **3.1.1 Raw Cashew Nuts Export Tax**

An export tax on raw cashew nuts currently exists. Presently the tax level is 14% on 95% of the fob price. This policy's intent is to discourage the export of unprocessed nuts in order to protect the processing industry, especially units using mechanical systems.

It is likely that this policy reduces the competitiveness of processing industry. An alternative might be to promote semi-mechanical cashew processing technologies. In the long term, this approach could reduce the differences between the Mozambican and Indian kernel outturn value. However, currently the Indian processing industry has certain advantages over the industry in Mozambique. In India, over 45 percent of kernel production is sold in the domestic market at higher prices (these are the kitchen kernels) while the domestic market in Mozambique is very small, at approximately 5 percent of production.

By combining the adoption of good technologies and marketing strategies for selling packed kernels it is possible to improve the competitiveness of the Mozambican processing industry.

##### **3.1.2 Raw Cashew Nuts Quotas**

Some industrialists propose that the government should establish quotas for exporting the raw cashew nuts. If such quotas were adopted, the effects would be similar to those described above. Additionally, the quotas would encourage the traders to grade the best nuts for exporting, which would have detrimental effects on the processing industry.

##### **3.1.3 Prepayment of Raw Cashew Nuts Export Tax**

This policy measure creates, in addition to tax revenues, cash flow problems for the raw nut exporters in order to discourage them from exporting. Those exporters that resort to domestic financing are obliged to apply for more short term credit to pay the taxes. The interest rates further reduce the profitability of the exporting activity.

Some raw cashew nut exporters approach foreign pre-financing institutions operating in Mozambique (ex: Equator Bank). The advantage of these institutions over the domestic ones is that they can lend as much as they want without submitting themselves to credit ceilings required of the national banks.

Export taxes also stifle income from a legitimate source of market share -- the raw nut market -- which discourages increases and improvements in production. Until the processing part of this sector is competitive, export of raw nuts provides incentives to producers to continue producing and even improving their stock.

#### **3.1.4 Import Tax and Tariffs**

Examples of items imported by the cashew subsector are: agricultural machinery, agrochemicals, jute bags, plastic bags, packaging machinery, processing machinery and vehicles. Presently, Customs Duties to be paid on these items are in the range of 2.5% to 5% on CIF value. In the past, levels of customs duties were higher, but there has been an improvement in this area in recent years. Continued improvement or various tariff honeymoon schemes could be developed to actually provide incentives for encouraging investment in technology.

#### **3.1.5 Consumption Tax**

The consumption tax, as the name implies, is paid by the end consumer. In the cashew subsector this tax is paid by the consumer when he buys the cashew kernels for consumption. This applies to kitchen kernels.

The effect of this tax is to discourage the development of a domestic market. The kernels remain a luxury product, and most people do not buy them in the formal markets because they are expensive. Foreigners, normally tourists, and institutions buy them. In order to encourage the development of national and regional markets, elimination of the consumption tax would promote value-added activity such as salting and spicing with reduced kitchen kernel prices. A bonus of increasing the domestic consumption market is to provide a market for secondgrade nuts, that are otherwise unexportable, or, if exported, negatively impact the reputation Mozambique is trying to build for quality kernels.

### **3.2 Budgetary Items: Automatic Allocation of Cashew Export Tax to National Cashew Institute**

It is intended that the export tax funds will be automatically allocated to the National Cashew Institute. The fund will be shared with the National Agronomic Research Institute (INIA) to support production research. Whether and how the non-INIA funds will be dispersed from the National Cashew Institute to provide benefits to the private sector and Non-Governmental Organizations (NGOs) involved in the cashew sector -- and what those benefits would be -- is a question that has yet to be adequately addressed.



### **3.3 Special Programs**

The Government of Mozambique has several special programs that have both specific and general impacts on the cashew subsector, but have the potential to have a significant impact on the cashew subsector include the those covering green field investment, purchasing war-torn facilities.

#### **3.3.1 Purchasing Facilities and Five Year Tax Exemption for Privatized Cashew Processing Units**

This policy intends to encourage the “modernization” of cashew processing units bought from the Government under the privatization program. However, a significant proportion of businesses benefitting from this policy are not modernizing their facilities, but are instead lobbying the Government to protect the mechanical systems that are, in reality, no longer viable in the competitive world environment.

#### **3.3.2 Five-Year Tax Exemptions for Green Field Site Investments**

The Government has announced new investments benefits consisting of tax exemptions on import and corporate taxes during a 5 year period.

While this is a positive step, it does not provide benefits for processors using the semi-mechanical processes, widely recognized as being more profitable than the current mechanical ones. Semi-mechanical processors generally do not have enough capital to construct new buildings, and resort to renting building facilities for processing, which makes them ineligible for these tax exemptions.

#### **3.3.3 Purchasing Facilities for War-Damaged Rural Shops Rehabilitation**

This policy is intended to encourage the rehabilitation of rural shops and is perceived as a significant incentive to improve rural cashew sector involvement.

### **3.4 Minimum Farm Gate Price**

Officially, under the pressure of World Bank, the minimum farmgate price was eliminated and replaced by the “reference price.” Practically, the “reference” price concept is interpreted as a minimum price by the producers and the traders. The Government intention is to establish a minimum price to secure minimum income for the producers.

### **3.5 Land Tenure System**

As is widely known, land in Mozambique is a property of the state. Theoretically, producers may use it free of charge. However, a problem exists because many peasants can not afford the charges necessary to have the land registered in their names. In **numerous** situations, rich urban dwellers or

others from surrounding areas who can afford the costs of registration have been able to take over land traditionally used by a peasant, but which he was unable to retain due to lack of registration.

Some NGO's are supporting producers in the registration of land, but the Government could consider reducing or eliminating the registration burden and cost.

### **3.6 Licensing**

It is necessary to have a valid business license for each new business activity undertaken. The process is lengthy and largely located in Maputo, creating difficulties for distant entrepreneurs and producers to undertake the necessary steps.

### **3.7 Labor**

Mozambican laws permit the employer to lay off redundant workers, but the process is long and complicated. Because labor laws require that a worker employed for more than three months consecutively be considered a permanent employee (with resultant financial and secure-job obligations to the individual), response to good cashew seasons is often inadequate due to reluctance to hire enough workers to undertake the work. This is a problem for cashew processing and production as well, although to a lesser extent.

### **3.8 Monetary Policy**

There are no monetary policies that have a specific impact on the cashew subsector. As is to be expected, the Government of Mozambique's monetary policies are broad in scope and affect all segments of the economy.

#### **3.8.1 Exporters are Allocated Up to 100% of their Foreign Currency**

This policy means that exporters can use export earnings to import the items they need without queuing in the case of hard currency shortage. In addition, because exporters are allowed by the central bank to hold the hard currency and use it at their discretion, they are able to use this "hard currency power" to negotiate with the banks for the credit denominated in hard currency which requires lower interest rates. Presently, this is an advantage because domestic currency is relatively stable. The "prime rate" for domestic credit is 19%, while credit denominated in hard currency carries interest rates in the range 8 – 12% per year.

A few years ago the situation was the opposite. For an exporter it was more advantageous to borrow in domestic currency, as the amounts of domestic currency received at the time of exporting more than compensated for the increased interest rates. This was because the rate of devaluation of domestic currency was higher than the interest rates.

#### **3.8.2 Credit Ceiling Restrictions for Domestic Credit**

This policy affects the amount of credit accessible by the enterprises. Because the ceilings are fixed for short periods (a quarter), for a processing unit, which needs the whole nuts during a short period, limits are placed on working capital borrowing which has negative implications for capacity enhancement.

### **3.8.3 Unrestricted Credit Ceilings for Export-Oriented Agricultural Products**

This policy provides incentives for the marketing of raw cashew nuts. The traders can quickly borrow money without restrictions as long as they have a secure outlet. For the traders, there are not major problems as the trading cycle is short. Moreover, the large-scale traders benefit from export pre-financing with some foreign export pre-financing institutions such as Equator Bank, whose lending amounts are not subject to the credit ceilings.

While this policy has some positive aspects within the industry, it also poses some problems to the processing segment of the industry, which, to invest in capital improvements, needs to borrow for more than a 3- or 6-month period at a time.

## 4.0 POLICY COMPARISONS

One of the most telling arguments that can be used in a policy discussion is “this is what your competitor Country X is doing...” In this section, we present information collected relative to the policies of several other countries that produce and export cashews, along with some market information gleaned along the way.<sup>1</sup> Information gathered about the policies of other countries can be useful in two ways. First, it can provide impetus for policy change in the country contemplating the same or similar change. In this regard, it might demonstrate the positive *or* negative effects of a policy, which can be a useful tools to judge downstream impact. Information about the pace of reform, increments, off-setting compensation measures, and other details can often be gathered by the resourceful researcher. Second, gathering such information can provide powerful information about competitors -- their weaknesses, strengths, and individual characteristics. Below is some information about a number of competitors in the cashew sector.

### 4.1 Brazil

One Rotterdam broker estimated that Brazil’s production this season would be 170,000 tons. Average yields are approximately 260 kg/ha as compared to Africa’s 600 kg/ha, Vietnam’s 1,000 kg/ha and Mexico’s 2,500 kg/ha.

Brazil’s cashew industry is different than industries in other countries in that the cashew apple/pear/false fruit is a primary product with a strong internal market and a growing international market. An expression of this unique orientation, cashew is generally classified as a fruit, and not a tree nut.

A 1997 Internet note from Sindifruta notes that there are government supported programs and regulations within the cashew subsector. It mentions that Banco do Brasil has extended a R\$ 20 million (about 1 Real to 1 US\$) line of inexpensive credit (9.5 percent for 6 to 8 months) to Cocaju (Cooperativa dos Produtores de Caju do Estado do Ceará- the state of Ceará’s cashew nut farmers’ cooperative) to finance the purchasing of small-scale cashew nut farmers’ harvests. Small farmers account for 60 percent of Ceará’s cashew nut production. In exchange for the line of credit, Cocaju had to adhere to a minimum farmgate price for raw nuts (.44 reais/kg or the equivalent of approximately 5,100 meticaís/kg using an exchange rate of 11,700 MT/Real). Farmers were expected to sell to the cooperative, and the cooperatives to the processing industry. In turn, the industry had agreed *not* to buy directly from farmers and *not* to purchase at prices below the minimum. If they broke this agreement, Cocaju would be allowed to export raw cashew to India. This scheme was envisioned in order to:

- C assist processing plants in acquiring larger stocks at lower harvest prices,
- C allow plants to operate more efficiently over the entire year given the greater and longer-lasting stocks of raw material, and
- C eliminate the market intermediaries who were said to offer unfair and exploitative prices to small farmers.

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<sup>1</sup> Information in this section was collected from interviews, Internet and library searches, as well as brief correspondence. Much of it could not be confirmed.

In Piauí, a neighboring state not covered by this agreement, farmers were receiving just .25 reais per kg while processing plants were buying raw nuts for .57 reais/kg.

## 4.2 Guinea Bissau

Cashew is the most important export crop, and output is increasing. Production increased from 26,000 tons in 1995 to 40,000 tons in 1996. Yields are around 350 to 450 kg/ha.

### Guinea Bissau

Cashew	1990	1991	1992	1993	1994	1995
<b>Production (1,000 tons)</b>	15.5	17.5	19.4	21.7	24.4	26
<b>FOB Exports (\$ million)</b>	11.6	14.1	3	13	31	20.5
Economist Intelligence Unit						

Ylva Lekberg produced a study entitled “Cashew in Guinea-Bissau: The Small Producer’s Perspective.” This study stated that there was a 35 percent export tax on raw cashews which, by 1996, had been reduced to 20 percent. One World Bank staff member interviewed on April 12 reported that the tax now is at 12 percent. The Bank is recommending that it be reduced again next year to 8 percent. Cashew prices are determined through the market, and cashew traders must acquire a license from the Ministry of Commerce. Three traders dominate the market: GETA-Bissau, Mamadú DJABI, and Carlos Gomes & Filhos. The article also mentions that cashew is bartered for rice and there is a maximum price set on rice.

The Ministry of Rural Development, Natural Resources, and the Environment’s Action Plan states that a grading system, an organization to certify export quality, and a cashew development fund will all be created.

Small farmers founded an association, AGUIPEC (Associação Guineense de Pequeno Comerciantes), in order to help small traders acquire training and credit. There is also the ANAG, a farmer’s association, formed in 1992 to support small farmers and provide agronomic training related to a number of crops including cashew.

## 4.3 India

In an interview at The World Bank, staff covering India noted that there are likely to be few barriers to free trade in cashew production, processing and trade since India has recently undergone substantial policy reform in an effort to comply with WTO (World Trade Organization) guidelines. Smitu Sothari in a *Journal of International Affairs* article (summer 1997) says that this reform process began in 1991 (details are outlined in a World Bank memorandum presented to the Indian government in 1990).

All export subsidies in India have been removed in this process, thus eliminating export subsidies for cashew.<sup>2</sup> Restrictions on exports (which would include raw nuts) have been removed. India has also recently deregulated imports, including agricultural inputs. Tariffs on processing equipment have come down significantly, and are now at only 10 percent. Again, it is not clear whether there was previously a tariff on cashew processing equipment *per se*, but having this information provides a benchmark of what other competing countries are doing. Under India's current trade policy, that tariff could range theoretically between 0 and 10 percent.

The "Cashew Market Report" of November 1, 1996 mentions that the new Kerala government, in conjunction with the Communist Party, wanted to re-instate the process of monopoly procurement of the state's production which allocated raw cashew to different factories based on past needs. This could not be confirmed. A brief article on the Internet entitled "Cashew Trade Continues to Expand" mentioned that many producers moved out of Kerala due to the government's monopoly in purchasing. The article also states that the policy had been discontinued.

There has been mention of a government sponsored program for cashew seed swapping (farmers trade ordinary cashew seed for improved seeds). This was not confirmed.

Over the past five years, cashew, mango, pineapple and oil palm enterprises have been applying increasing pressure on the government to relax the ceiling on the size of land holdings and allow for long-term leasing of large holdings. They have also been demanding increased access to forest land (Kothari).

India has strong interests in sustainable and participatory forest management. Environmentalists and NGOs have been actively counteracting forestry-based industrial groups' attempts to promote monocropping enterprises (including cashew, rubber, and palm oil commercial plantations). They call for regulation of land use and safeguards against the development of monocropping schemes, and are promoting the concept that forest development should evolve through government, community, and industry interaction and cooperation. This information is derived from a note on the Internet by AK Mukerji (freelance forestry consultant, chief advisor for Consulting Engineers Services, former Inspector General for the Indian government's Ministry of Environment and Forests).

A major comparative advantage for India is cheap labor, predominantly female. Manuel Bosco de Almeida and Francisco de Assis Soares, both professors at Universidade Federal do Ceará (UFC), claim in their 1996 article in Revista Economica do Nordeste that India's unique method of employing numerous home processing units allows for a flexible processing capacity eliminating problems of underutilization of processing capacity, something which plagues Brazil's cashew industry. Another advantage is that Indian exporters are much more inclined to sell forward, unlike Brazilian exporters.

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<sup>2</sup> It is unclear whether there were any such subsidies in existence originally.

G. Chandrashekhhar wrote for the “Business Line & The India Information Inc” that African suppliers of raw nuts “jacked up prices by around \$50-\$75 per ton.” This apparently translated into a 10 percent reduction in imports compared to last year.

#### 4.4 Tanzania

The following information was contained in an FAS/USDA attaché report. Tanzania’s cashew sector suffered during the socialist period when the government moved cashew nut farmers into villages located at a distance from their trees. However, farmers have been investing in new technology and production has recently been increasing. Farmgate prices for 1995/96 harvest were Tsh 200-280/kg. Using an exchange rate of Tsh 570/US\$ and at 11,700 MT per US\$, the equivalent prices are \$.35 to \$.49/kg or 4,095MT/kg.

The Cashew Nut Marketing Board, a parastatal, has recently privatized 8 of the 11 existing processing plants. These factories, with a total capacity of 70,000 tons, are under management contracts for a period of 5 to 10 years.

The government levies an export tax on cashew. The rate is 3 percent on the value of the export. The tax is equally allocated to three funds for (1) improving processing plants, (2) CMBT’s marketing activities, and (3) crop improvement and development. The report did not clearly state whether the tax was applied to raw or processed cashews.

Cashew farmers must pay a Tsh 55-80/kg tax (again, the report did not specify whether this tax is unique to cashew or for all commercialized agricultural production). The revenue generated from the tax is for local development projects. CAT (The Cashew Association of Tanzania) recommended lower fixed rates.

#### Tanzania

Cashew	1992/93	1993/94	1994/95	1995/96	1996/97
Production (1,000 tons)	42.3	46.5	63.4	82	63
	1992	1993	1994	1995	1996
FOB Exports (\$ million)	23.5	23.3	51.2	63	81.8
Economist Intelligence Unit					

## 4.5 Vietnam

Agricultural production was formerly under a system of collective farming, including cashew. Now production and marketing is being liberalized.

A Ministry of Agriculture staff stated that Vietnam has a 5 percent export tax on raw cashew nuts. One other source claimed that there was actually an export ban. Although we were unable to pinpoint the exact policy, based on EIU's observations below it appears that some barrier, regulation or licensing process associated with importing raw cashew nuts exists. The government requires that all cashew nuts be shelled in Vietnam ("Cashew Market Report," 3/3/97).

According to the "Cashew Market Report" of March 3, 1997, the bulk of Vietnamese processed cashews is exported to China. China can pay higher prices for Vietnamese cashews because of the relatively low duties on Vietnamese goods as compared with those from other countries. Apparently Vietnam is concentrating on supplying the Chinese markets and perhaps purchasing Chinese raw nuts for processing.

The same MOA staff member said that cashew is largely grown by small holders. Estimated total production area is approximately 245,000 ha. Most of the cashew is grown in the southeast region where yields are 800 kg/ha. Cashew is among the activities included in the National Program for a 5 million ha forest plantation.

According to "India Exporters Online," Vietnam is rapidly becoming an important competitor in production and processing of cashew. Vietnam's expertise now rivals that of India with at least 52 processing plants operating in the country. Vietnam had supplied India with raw nuts for their processing industries, but Vietnamese supplies dried up in 1997.

### Vietnam

Cashew	1992	1993	1994	1995
Exports (1,000 tons)	51.7	47.7	81.3	99
FOB Exports (\$ million)	41	44	59	130
Economist Intelligence Unit				

The Economist Intelligence Unit estimates that cashew production was 140,00 tons in 1997, up from 120,000 in 1996. Total exports of processed nuts were \$125 million in 1997. Domestic processing capacity is 160,000 tons. The industry has requested permission to import 15,000 tons of raw nuts from Africa in an attempt to fully utilize its processing capacity.

The "Cashew Market Report" for April 1, 1998 states that due to poor weather conditions Vietnam's cashew harvest is expected to be 30-40 percent less than last year which was 100,000 to 110,000 tons.



According to information distributed at a MOA/Hanoi workshop on agricultural and rural development strategies, farmgate prices are said to be favorable: \$US.65/kg (approximately 7,650 meticaïs/kg). It was said that processors were colluding to hold down prices.

## Vietnam

Cashew	1992	1996	change (%)
Sown area (ha)	78,983	187,553	137
Production area (ha)	32,009	92,512	189
Gross output (tons)	23,730	50,676	113

## 4.6 Using Competitor Information in the Policy Change Process

Unlike numbers that pertain to one's own country, it is often much easier to evaluate and criticize the policies and practices that are implemented in other places. The lessons learned from these analyses and observations can then be brought to bear upon the policy environment in one's own country. For example, a workshop can use case studies and modeling based on other countries or fictitious data that reduces the threat to one's own individual policy makers, and allows the policy maker to sit back and evaluate the impacts of the targeted policy, without feeling obligated to defend it or make it sound better than it truly is. In addition, it allows the opportunity to opponents of a policy to openly discuss the policy and its problems, without risking the wrath of an official who might retaliate if sensing an attack on "his" policies.

Nevertheless, at some point analysis and evaluation of the country's own policies must occur, and movement towards raising the policy reform as an issue for decision must begin. The best forum in which this can happen is one in which several conditions are present, some of which are described below<sup>3</sup>:

- 1) **A Policy Champion exists.** A policy champion is an authority figure of some power, preferably in the current government and with the ear of the decisionmakers, who has been convinced ideologically of the rightness of the proposed policy reform, and who has significant ability to mobilize elite support behind the reform, and distance reform opponents. If there is no policy champion, efforts should be made to develop one (or more).
- 2) **Consensus about the reform exists in a variety of stakeholder groups.** This presupposes a certain amount of awareness building and marketing of the proposed policy reform to stakeholder groups, or awareness of natural constituencies that must be tapped to develop

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<sup>3</sup> Based on Abt Associates research and analysis in seven case studies, summarized in the report entitled *Improving the Effectiveness of Policy Reform in Africa: A Synthesis of Lessons Learned*, by Nicolas Kulibaba and Catherine Rielly, under the APAP II project, and using the Analytical Framework included in this report as Annex 3.

adequate momentum and visibility in support of the reform. Stakeholder analyses are an important part of determining the existence and leanings of different groups. If there are strong groups that oppose the reform, they must be counterbalanced either by similarly strong groups that support the reform, or strategies to either change their views or minimize their influence must be developed.

- 3) **Foreign technical advisors can play an important role in supporting policy champions.** Numerous examples exist of foreign technical advisors playing a catalytic role in policy change. What is their advantage and how is it best used? In Madagascar, for example, outside economists conducted research and analyses that showed the decline likely if market liberalization in the rice sector did not occur soon. The policy champion was able to use these reports (which were visually and technically quite devastatingly convincing) to move the issue into a priority position and to build awareness among policy decision-makers about the consequences of non-action. In addition, policy champions and constituencies can use outside experts to do the difficult and sometimes confrontational technical demonstrations, limiting their own exposure as a consequence.
- 4) **Policy makers have been adequately informed and have developed a clear intellectual understanding of the proposed reform *and its underpinning theoretical basis*.** In many instances policy makers are forced into policy reforms by conditionalities and donor pressure, but once out of the limelight, they may backslide and reverse the policy reform or may find alternative ways in which to undermine its value. Thus, in order to ensure that a policy reform has the intended effect, the commitment and understanding of the officials initiating the reform, as well as those implementing it (technocrats) is needed.
- 5) **Reforms are crafted in such a way so as to defuse opposition.** This strategy may include developing compensation packages for the largest legitimate losers, reducing the political risk to those who will be negatively affected by the reform, and developing a number of scenarios that can be proposed so that negative impacts can be evaluated and sidestepped where possible.

In a number of ways, some of these steps have already been taken to one degree or another in Mozambique. However, at present the Cashew Working Group does not appear to have a clear vision or strategy to address what are some key policy areas that are impeding the growth of the cashew sector. Based on the attached matrices and the analytical framework for policy change, a few recommendations follow in Section 5.0.

## 5.0 CONCLUSIONS AND RECOMMENDATIONS

The first step has been taken to identify policies that affect the cashew sector and achievement of the goal to return to the strong market position that Mozambique once held. Following are some recommendations that could be carried out over the next months to further the process of policy dialogue.

- 1) **Conduct analyses of the economic impacts of the policies on the cashew sector in Mozambique.** A number of taxation and legal requirements have cost implications for the sector. Once removed or reduced, a certain incentivization begins that can be modeled to demonstrate anticipated growth and results. This information can then be used to educate and build awareness among policy decision-makers and stakeholder groups, from producer to exporter.
- 2) **Begin a series of biweekly or monthly seminars and discussion groups.** An activity that can be coordinated and sponsored through the Cashew Working Group, but be led by the consultants or resident team leader (if one is appointed) would be to hold seminars open to the public and particularly targeted to all the groups involved in the cashew sector. These informal gatherings can be one way for information dissemination to occur, but they can also be used to gather information about the stakeholder groups, their concerns, and their beliefs.
- 3) **Conduct a formal stakeholder analysis and a political map.** Political maps and stakeholder analyses provide certain kinds of essential information relative to lines of communication, strength of support or opposition, groups or individuals that need to be considered in the policy reform process, and the extent of understanding of the policy reforms in question. These tools form the basis for a strategy to work within the system (as opposed to overturning it) to develop a policy environment conducive to the cashew industry.
- 4) **Develop a strategy for supporting policy reform efforts, based on the above.** Included in this is identification and support of policy champions, building public awareness of issues, actively working with different stakeholder groups to garner their support and develop their understanding of the issues, along with their active participation in the process, as well as finding ways to counteract opposition and minimize negative effects. An important part of the strategy development must also be the strategy for implementation, such as ensuring that the technocrats who are responsible for implementing policy changes in and around the country are prepared and have bought into the policy, so that implementation can get underway once the policy decision-makers have done their work.
- 5) **Provide adequate dissemination of policy changes to the public and private sectors.** A frequently overlooked aspect of policy reform is making sure that the implementing technocrats and the beneficiary populations are aware that policies have been changed, and that the appropriate new forms, procedures, and reporting channels have been updated to reflect these changes. Particularly in instances where reforms are mandated by outside forces (such as conditionalities), the technicalities of applying these policy changes are forgotten, neglected, or even, in some cases, avoided, so that the policy reform that appears as official laws, is never implemented.